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C O N F I D E N T I A L SECTION 01 OF 04 COLOMBO 000515

SIPDIS

DEPARTMENT FOR SA, SA/INS, INR/NESA
DEPARTMENT PLS ALSO PASS TO USTR J. ROSENBAUM
NSC FOR E. MILLARD
TREASURY FOR R. ADKINS
COMMERCE FOR A. BENAISSA

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [PTER](#) [CE](#) [NO](#)

SUBJECT: Sri Lanka: Implications of a possible victory
by the President's party and JVP in April 2 election

Refs: Colombo 503, and previous

(U) Classified by Ambassador Jeffrey J. Lunstead.
Reasons 1.5 (b, d).

1. (C) SUMMARY: At this point in Sri Lanka's April 2 parliamentary election campaign, the UPFA alliance between the President's party and the JVP appears ahead in the race, though not a lock to win. If the UPFA does come out ahead and goes on to form the government, however, there are numerous implications. On the positive side, the UPFA is committed to continuing the peace process, though it is unclear how effective it would be in dealing with the LTTE. On the negative side, a win by the alliance poses serious questions about the direction of GSL economic policy and reform.

2. (C) SUMMARY (Continued): With respect to bilateral ties, although we have maintained close links with the President and her key advisers, and she is basically friendly to the U.S., a UPFA government would be more difficult to deal with and less responsive to our positions on international matters compared to the current UNP government. We would expect a UPFA government to continue the policy of trying to reach a Free Trade Agreement (FTA) with the U.S., however. Overall, if the UPFA forms the next government, President Kumaratunga would want good relations with the United States and we would likely be able to cooperate on a number of key issues. It would be better for Sri Lanka and better for the bilateral relationship if a UNP government were returned to power, however. END SUMMARY.

UPFA appears to be in lead (for now)

3. (C) At this point in Sri Lanka's April 2 parliamentary election campaign, the alliance between the President Kumaratunga's Sri Lanka Freedom Party (SLFP) and the Janatha Vimukthi Peramuna (JVP) appears ahead in the race. (The alliance's technical name is the United People's Freedom Alliance, "UPFA.") As reviewed in detail in Reflets, while they are an inexact science in Sri Lanka, polls are showing the UPFA to be significantly more trusted than Prime Minister Wickremesinghe's United National Party (UNP) with respect to dealing with what the public has described as the most important issue: the economy. Compared to the UNP, the UPFA also has a significantly better image on corruption, which has been a sleeper issue in the campaign. In the meantime, the UNP is ahead among those polled in terms of handling the peace process with the Liberation Tigers of Tamil Eelam (LTTE). While the polls do not clearly delineate head-to-head matchups among the parties, the UPFA appears to have a strong lead among Sri Lanka's majority Sinhalese community, with the UNP doing relatively well among minority groups such as Muslims.

4. (C) The poll results tend to confirm what Mission is hearing anecdotally. The general view is that the UNP's campaign has had a difficult time gaining traction, though it may have picked up some momentum in the past week or so and could conceivably mount a comeback. Most observers currently believe, however, that the UPFA campaign -- taking advantage of Kumaratunga's control of the press -- has been more effective at getting its message out. Overall, it now seems quite possible -- though it is by no means a lock -- that the UPFA could win a majority in Parliament outright on election day, or at least come close enough to doing so to allow it to form the next government by gaining the support of smaller parties and/or UNP defectors.

Possible implications of a UPFA win

15. (U) If the UPFA does win, there are numerous implications. Sketched out below are notions of what a UPFA victory might mean for two of Sri Lanka's most pressing issues: the peace process and the economy.

16. (C) PEACE PROCESS: The UPFA has publicly committed itself to continuing the peace process. President Kumaratunga has been a long-standing advocate of ethnic reconciliation and has underscored her support for continuing the informal peace process and the ceasefire. She and other UPFA leaders have also publicly come out in favor of the Norwegian government peace facilitation effort and a near-term resumption of the negotiation track with the LTTE that has been on hold since April 2003. Although the SLFP and JVP were initially bitingly critical of the LTTE's October 2003 proposal on forming an interim setup in the north/east, the UPFA has indicated that it is willing to discuss that proposal in the context of possibly "devolving powers" to the north and east.

17. (C) While the UPFA has basically said all the right things about the peace process, it remains unclear how effective it would be in dealing with the LTTE. The LTTE, for example, is known to bitterly dislike both Kumaratunga and her chief assistant on peace process issues, former foreign minister (and a possible PM in a UPFA government) Lakshman Kadirgamar. Kumaratunga and Kadirgamar reciprocate that view in large measure. (The LTTE almost killed Kumaratunga in 1999 in an assassination attempt and Kadirgamar, a Tamil, is considered a traitor by the group and has had his life threatened on multiple occasions.) Given all of this baggage, it is unclear to what extent the two sides can cooperate. Previous efforts (those from 1994-2001) by President Kumaratunga to engage the LTTE in long-term peace processes ended in complete failures, for example. There is also the question of whether the JVP is really on board with the UPFA's proclamations regarding the peace process. The JVP has been stridently skeptical of the process in the past, lambasting the UNP on many occasions for allegedly giving away too much to the LTTE, for example. The JVP has also on many occasions lashed out at the Norwegian peace facilitation effort. Given that the UPFA is clearly a very loose electoral alliance, it is by no means clear whether the JVP will work closely with the SLFP on the peace process, or actively try to undercut those efforts. The JVP, for example, has already stated that the GSL should try to work with Karuna, the rebel LTTE commander in the east, in an effort to destroy the main LTTE organization. The Norwegian facilitators have stressed that taking such a course would probably spell the end of the peace process and President Kumaratunga has asserted that she has no plans to reach out to Karuna.

18. (SBU) THE ECONOMY: On the economic front, a UPFA win poses serious questions about the direction of GSL economic policy and reform. Certain issues seem clear: privatization efforts will slow, if not cease; the GSL will take positions in the WTO more typical of developing countries (i.e., aligning with the G-22) and fiscal discipline will likely become more relaxed (the President has promised to hire a minimum of 25,000 new government employees if the UPFA assumes power). Whether these positions will be exacerbated by the President's SLFP party's alliance with the Marxist JVP is still a point of debate. The President's key economic advisors assure us that the SLFP can "control" the JVP. Nonetheless, the recently released UPFA "manifesto" raises serious questions about the role of the private sector and the pace of economic reform (see Reftels). Sri Lankan business groups have met on a few occasions with members of the UPFA alliance. Most recently, the Ceylon Chamber of Commerce hosted a closed door meeting with the JVP. While members of the business community are not enthused about a JVP-influenced Government, they claim the JVP is making the right noises (though it is not clear the JVP understands the "market" concepts it claims to now embrace -- see Reftels).

Possible impact on bilateral ties

19. (C) With respect to bilateral ties, although we have maintained close links with the President and her key advisers, and she is basically friendly to the U.S., a UPFA government would be more difficult to deal with and less responsive to our positions on international matters compared to the previous UNP government. With respect to the day-to-day act of dealing with a government controlled by the UPFA, we would expect that its various ministries would take longer to review U.S.

proposals and to react to our concerns. This was the case with President Kumaratunga's 1994-2001 People's Alliance (PA) government, which often proved to be extremely formal and highly protocol-conscious. During that timeframe, meetings with high-level principals such as the president, PM, and FM, were often difficult to arrange, which was a problem because decision-making was often funneled up to the highest levels. This pattern could well be replicated in a UPFA government. On the substantive side, the UPFA has made clear during the campaign that it considers the UNP to have been too pro-U.S. on various matters and it has promised to support a foreign policy that is "not aligned or subservient to any other country or group of countries." These code words indicate that the UPFA plans to anchor itself more firmly within the Non-Aligned Movement (NAM) and the G-77 than the UNP government, which was relatively pro-U.S. on matters such as Iraq. As noted, in the economic area, this would almost certainly involve the GSL linking itself to the G-22 in the WTO context.

110. (C) As for U.S.-Sri Lankan bilateral economic relations, we anticipate the GSL continuing to want an FTA, though an incoming UPFA administration will have little technical understanding of the FTA process and would likely want additional concessions and longer phase-outs in certain sectors, demands that would be unhelpful and run counter to the context in which the USG has been considering an FTA. We also anticipate being able to work cooperatively with a UPFA government on submitting a Millennium Challenge Account compact proposal. We expect that the Treasury Advisor program on budget and debt management would be welcomed by a UPFA government, though we do not know to what degree it would appreciate the stringent discipline required to make fiscal reforms work. A potential Tropical Forest Conservation Act (TFCA) initiative would probably face some initial skepticism, given sensitivities about the environment and doubts about U.S. environmental policy. Also, the UPFA has been critical of the current government's policies on economic development in the forest areas.

COMMENT

111. (C) If the UPFA forms the next government, President Kumaratunga would want good relations with the United States and we would likely be able to cooperate on a number of key issues. In short, we would work to make the best of things. Given her history with the LTTE and the economic proclivities of many in her camp it is possible, however, that the peace process and/or the economy could deteriorate markedly. Simply put, it would be better for Sri Lanka and better for the bilateral relationship if a UNP government were returned to power. END COMMENT.

112. (U) Minimize considered.

LUNSTEAD